

NEWS RELEASE

FOR RELEASE

Hunzelman, Putzier & Co., PLC today released an audit report on Cherokee County, Iowa.

The County has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Also included is Management's Discussion and Analysis of the County's financial statements.

The County had local tax revenue of \$14,712,468 for the year ended June 30, 2004, which included \$900,310 in tax credits from the state. The County forwarded \$11,065,689 of the local tax revenue to the townships, school districts, cities, and other taxing bodies in the County.

The County retained \$3,646,779 of the local tax revenue to finance County operations, a four percent increase from the prior year. Other revenues included charges for service of \$764,602, operating grants and contributions of \$3,436,385, capital grants and contributions of \$2,909,546, unrestricted investment earnings of \$107,539, and other general revenues of \$244,382.

Expenses for County operations totaled \$7,656,040, a fifteen percent decrease from the prior year. Expenses included \$2,886,480 for Roads and Transportation, \$1,391,714 for Public Safety, and \$1,073,007 for Administration.

A copy of the audit report is available for review in the office of the Auditor of the State and the County Auditor's office.

CHEROKEE COUNTY

INDEPENDENT AUDITOR'S REPORTS

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS

JUNE 30, 2004

CHEROKEE COUNTY  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
JUNE 30, 2004

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# CHEROKEE COUNTY

## OFFICIALS

| <u>Name</u>       | <u>Title</u>                               | <u>Term Expires</u> |
|-------------------|--|---------------------|
| James Peck        | Board of Supervisors                       | Jan. 2005           |
| LeRoy Schoon      | Board of Supervisors                       | Jan. 2005           |
| Ronald Wetherell  | Board of Supervisors                       | Jan. 2005           |
| Edwin "Bud" Clow  | Board of Supervisors                       | Jan. 2007           |
| Jeffrey Simonsen  | Board of Supervisors                       | Jan. 2007           |
| Barb Huey         | County Auditor (Resigned September,2003)   |                     |
| Bonnie Ebel       | County Auditor (Appointed September, 2003) | Jan. 2005           |
| Lynde Lundquist   | County Treasurer                           | Jan. 2007           |
| Dawn Jones Coombs | County Recorder                            | Jan. 2007           |
| Dave Scott        | County Sheriff                             | Jan. 2005           |
| Mark Cozine       | County Attorney                            | Jan. 2007           |
| Robert S. Hart    | County Assessor                            | Jan. 2010           |

## INDEPENDENT AUDITOR'S REPORT

To the Officials of Cherokee County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Cherokee County, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Cherokee County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of Cherokee County at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

As described in Note 15 to the financial statements, during the year ended June 30, 2004, Cherokee County adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2004 on our consideration of Cherokee County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 38 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Cherokee County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hungelman, Putzier + Co.*

October 21, 2004

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Cherokee County provides this Management Discussion and Analysis of its financial statements. This report contains an overview and analysis of the financial activities for the fiscal year ended June 30, 2004. The following information should be considered in relation to the County's financial statements included in this report.

This is the first year that Cherokee County is required to report all activities on a full accrual basis, as required by the reporting standards of GASB 34. A comprehensive comparison to fiscal year 2003 is not possible. However, in future years, comparisons will be more meaningful and will go further in explaining the County's financial position and results of operations.

### **2004 FINANCIAL HIGHLIGHTS**

- Cherokee County governmental fund revenues decreased approximately \$726,441 from fiscal year 2003 to fiscal year 2004. Property taxes and other county tax increased approximately \$101,814.
- Cherokee County's governmental fund expenditures were approximately \$1,026,348, more in fiscal year 2004 than in fiscal year 2003. Roads and transportation expenditures increased by approximately \$353,631 and capital projects expenditures increased approximately \$527,462.
- Cherokee County's net assets increased 23.35%, or approximately \$3,453,193, from June 30, 2003 to June 30, 2004.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.
- The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Cherokee County as a whole and present an overall view of the County's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Cherokee County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Cherokee County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).
- Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year.
- Other Supplementary Information provides detailed information about the nonmajor Special Revenue and the individual Agency Funds.



## REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

Accounting methods similar to those used in private-sector businesses are used in preparing the County-wide financial statements. The information contained in these reports helps the public to understand if Cherokee County's financial position is better or worse after the fiscal year has ended.

The Statement of Net Assets includes all of Cherokee County's assets and liabilities with "net assets" being reported as the difference between assets and liabilities. Over time, increases or decreases in the County's net assets will indicate if the financial position of the county is improving or deteriorating.

The Statement of Activities includes all of the current year's revenues and expenses. All changes in net assets are reported as soon as the change occurs, regardless of when the cash was received or paid. Therefore, revenues and expenditures for some items will be reported in this statement and their resulting cash flows will be reported in future fiscal reports.

Cherokee County's governmental activities are presented in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, and non-program activities. Property tax and state and federal grants finance most of these activities.

### *Fund Financial Statements*

The Fund Financial Statements provide more detailed data about Cherokee County's funds. Funds are used to keep track of sources of funding and spending on particular programs. Most "major" funds are required by state law while the County establishes other funds to control and manage money for specific purposes or to show that it is properly using certain revenues such as federal grants.

Cherokee County has three kinds of funds:

1) Governmental Funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads, and 3) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance Cherokee County's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2) Proprietary funds account for the County's Internal Service, Employee Group Health Insurance Fund. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the County's various functions.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

3) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support Cherokee County's own programs.

The required financial statements for fiduciary funds include a statement of fiduciary assets and liabilities.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Cherokee County's combined net assets were \$18,239,531 for fiscal year 2004. This reflects a \$3,453,193 (23.35%) increase over fiscal year 2003 net assets of \$14,786,338. This increase can be substantially attributed to roadway construction. The analysis that follows focuses on the changes in the net assets for governmental activities.

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#### **Net Assets of Cherokee County's Governmental Activities**

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|   | <u>Year Ended</u><br><u>June 30, 2004</u> |
|---|---|
| Current and other assets                        | \$ 9,534,160                              |
| Capital assets                                  | <u>12,091,826</u>                         |
| Total assets                                    | <u>21,625,986</u>                         |
| Other liabilities                               | <u>3,386,455</u>                          |
| Total liabilities                               | <u>3,386,455</u>                          |
| Net assets                                      |   |
| Invested in capital assets, net of related debt | 12,091,826                                |
| Restricted                                      | 4,267,508                                 |
| Unrestricted                                    | <u>1,880,197</u>                          |
| Total net assets                                | <u>\$ 18,239,531</u>                      |

Net assets of Cherokee County's governmental activities increased by \$3,453,193 compared to fiscal year 2003. The largest portion of Cherokee County's net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment). Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—are reported at approximately \$1,880,197 as of June 30, 2004.

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**Changes in Net Assets of Cherokee County's Governmental Activities**

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|   | <u>Year Ended</u><br><u>June 30, 2004</u> |
|---|---|
| Revenues:   |   |
| Program revenues:   |   |
| Charges for service   | \$ 764,602                                |
| Operating grants, contributions, and restricted interest    | 3,436,385                                 |
| Capital grants, contributions, and restricted interest      | 2,909,546                                 |
| General revenues:   |   |
| Property tax  | 3,435,173                                 |
| Penalty and interest on property tax                        | 35,187                                    |
| State tax credits   | 211,606                                   |
| Tax increment financing                                     | 109,332                                   |
| Grants and contributions not restricted to specific purpose | 72,224                                    |
| Unrestricted investment earnings                            | 107,539                                   |
| Miscellaneous   | 27,639                                    |
| Total revenues  | <u>11,109,233</u>                         |
| Program expenses:   |   |
| Public safety and legal services                            | 1,391,714                                 |
| Physical health and social services                         | 665,880                                   |
| Mental health   | 946,653                                   |
| County environment and education                            | 431,762                                   |
| Roads and transportation                                    | 2,886,480                                 |
| Governmental services to residents                          | 260,544                                   |
| Administration  | <u>1,073,007</u>                          |
| Total expenses  | <u>7,656,040</u>                          |
| Increase in net assets                                      | 3,453,193                                 |
| Net assets beginning of year                                | <u>14,786,338</u>                         |
| Net assets end of year                                      | <u>\$ 18,239,531</u>                      |

Cherokee County did not change property tax rates for 2004. The County's property tax revenue increased by \$101,814 due to a 2% increase in total property valuation.

**INDIVIDUAL MAJOR FUND ANALYSIS**

As Cherokee County completed the year, its governmental funds reported a combined fund balance of \$6,332,924, a decrease of \$1,569,784 from last year's \$7,902,708 ending fund balance. The decrease in fund balance is primarily attributable to the Cherokee County Board of Supervisors' desire to "spend down" the fund balance reserve rather than increasing property taxes for the citizens of Cherokee County. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues and expenditures reflect normal increases in expenditures pertaining to labor costs and insurances increases. The ending fund balance showed a decline of \$208,648 from the prior year to \$1,958,620.

- Cherokee County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$942,271 while revenues generated for this fund in fiscal year 2004 were \$994,892. The resulting increase in the Mental Health Fund balance at year end was \$29,946 (nearly 9%).
- Rural Services ending fund balance for fiscal year 2004 was \$377,273, which is a \$83,896 decrease from the prior year's balance of \$461,169. This change is a result of Cherokee County's plan to bring their ending reserve balances down.
- Secondary Roads Fund expenditures increased in the area of construction. This resulted in an ending fund balance decrease of \$1,212,468 for the year ending June 30, 2004. The prior year fund balance was \$4,458,462 and was reduced to a \$3,245,994 fund balance after completion of the 2004 year.
- Other Special Revenue Funds which include County Recorder Records Management, Conservation Land Acquisition Trust, and Resource Enhancement and Protection, and the Capital Projects fund, are classified as nonmajor special revenue funds. The combined activities of these funds resulted in a decrease in fund balance of \$94,723. The ending fund balance for 2004 was \$373,979 which is a reduction from the prior year's ending fund balance of \$468,702.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, Cherokee County amended its budget one time. This amendment was made on April 27, 2004 by the County Board of Supervisors for the following reasons:

- Increased public safety \$30,000 for unforeseen rises in juvenile probation costs.
- Increased county environment \$5,000 for zoning judgments and costs related to the Little Sioux Raceway.
- Increased administration \$20,000 for health insurance partial self funding premiums.
- Increased the July 1, 2003 cash beginning fund balance from \$6,868,936 to the actual cash fund balance of \$7,191,405.

### **CAPITAL ASSETS**

Cherokee County's capital assets activity for the year ended June 30, 2004 was as follows:

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#### **Capital Assets of Governmental Activities at Year End**

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|  | <u>Year Ended</u><br><u>June 30, 2004</u> |
|--|---|
| Governmental activities:                   |   |
| Capital assets not being depreciated:      |   |
| Land                                       | \$ 180,750                                |
| Construction in progress                   | <u>2,512,715</u>                          |
| Total capital assets not being depreciated | <u>2,693,465</u>                          |
| Capital assets being depreciated:          |   |
| Buildings                                  | 3,508,580                                 |
| Improvements other than buildings          | 9,750                                     |
| Equipment and vehicles                     | 4,922,549                                 |
| Infrastructure                             | <u>4,578,040</u>                          |
| Total capital assets being depreciated     | <u>13,018,919</u>                         |

|   |                          |
|---|--------------------------|
| Less accumulated depreciation for:              |                          |
| Buildings                                       | \$ 1,530,020             |
| Improvements other than buildings               | 1,647                    |
| Equipment and vehicles                          | 2,013,671                |
| Infrastructure                                  | 75,220                   |
| Total accumulated depreciation                  | <u>3,620,558</u>         |
| <br>Total capital assets being depreciated, net | <br><u>9,398,361</u>     |
| <br>Governmental activities capital assets, net | <br><u>\$ 12,091,826</u> |

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND LEVY RATES**

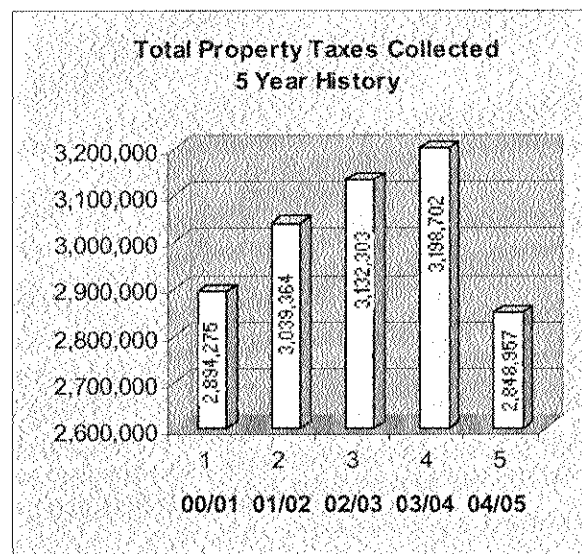
Cherokee County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and the fees that will be charged for various county services. One of those factors is the economy. Cherokee County's unemployment rate has been somewhat volatile with a three year comparison with the State of Iowa rates as follows:

|                 | <u>December 2002</u> | <u>December 2003</u> | <u>December 2004</u> |
|-----------------|----------------------|----------------------|----------------------|
| Cherokee County | 4.0%                 | 3.8%                 | 5.7%                 |
| State of Iowa   | 4.1%                 | 4.6%                 | 4.7%                 |
| National        |                      |                      | 5.4%                 |

State revenue cutbacks, health insurance increases, a generally flat economy and an approximately 23% decrease in agricultural property valuations have influenced the Cherokee County Board of Supervisors' decision concerning tax rates for the 2005 fiscal year budget.

The fiscal year 2005 budget certified tax revenues, broken down by the major funds, that Cherokee County receives are as follows:

|                           | <u>Fiscal Year 2005</u><br><u>Dollars Certified</u> | <u>Fiscal Year 2004</u><br><u>Dollars Certified</u> | <u>Fiscal Year 2003</u><br><u>Dollars Certified</u> |
|---------------------------|---|---|---|
| General Fund              | \$1,684,801   | \$1,845,024   | \$1,808,390   |
| Mental Health Fund        | 336,960   | 415,131   | 406,888   |
| Rural Basic Fund          | 827,196   | 938,547   | 917,025   |
| <br>Total Taxes Collected | <br>\$2,848,957                                     | <br>\$3,198,702                                     | <br>\$3,132,303                                     |



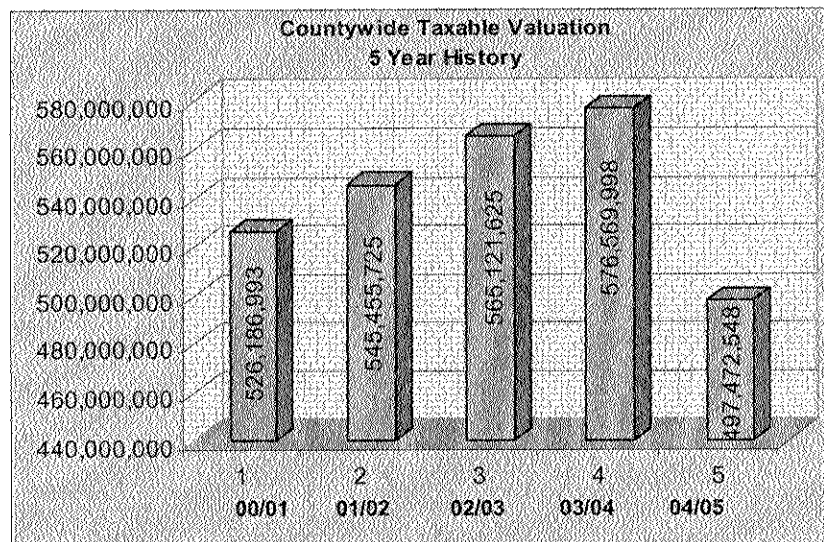
Levy Rates (based on \$/\$1,000 taxable valuation) for Cherokee County have been:

|                    | Fiscal Year 2005<br><u>Levy Rates</u> | Fiscal Year 2004<br><u>Levy Rates</u> | Fiscal Year 2003<br><u>Levy Rates</u> |
|--------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| General Fund       | 3.50                                  | 3.20                                  | 3.20                                  |
| Mental Health Fund | .70                                   | .72                                   | .72                                   |
| Rural Basic Fund   | 2.47894                               | 2.24846                               | 2.24846                               |

Iowa Code limits the General Fund levy rate to \$3.50 per \$1,000 of taxable value. A majority of Iowa Counties are at that limit and levy in the General Supplemental Fund which allows them to exceed the \$3.50 general basic levy for certain expenditures which include employee benefits (i.e. health insurance, FICA, and IPERS), county risk management expenditures, election costs, and court ordered settlements. The Rural Basic levy rate limit is \$3.95 per \$1,000 of taxable value. Each year, more counties are reaching that limit and are using the Rural Supplemental levy for expenditures as allowed in the general supplement fund.

Cherokee County's Taxable Valuations reflect a drastic decrease for fiscal year 2005:

|               | Fiscal Year 2005<br><u>Valuations</u> | Fiscal Year 2004<br><u>Valuations</u> | Fiscal Year 2003<br><u>Valuations</u> |
|---------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Rural Taxable | 344,529,208                           | 417,417,705                           | 407,845,659                           |
| Urban Taxable | 152,943,340                           | 159,152,293                           | 157,275,966                           |
| Total Taxable | 497,472,548                           | 576,569,998                           | 565,121,625                           |



Cherokee County has been fortunate that there have been several good economic years in the past, allowing the fund balance to carry the burden of the fiscal year 2005 budget concerns due to the decrease in valuations. Looking forward into the fiscal year 2006 budget year, Cherokee County will need to address the reduction in tax revenues with potential levy rate increases in the Rural Basic levy and/or utilizing the General Basic Supplemental levy to maintain a desired 25% ending fund balance. This ending fund balance is needed to cover expenses incurred during the first quarter of the fiscal year, before any potential tax revenues are received via property tax payments.

Cherokee County anticipates a gradual increase in valuations in the upcoming budgets, however, it will take several years to gain back the extremely large decrease that was seen for fiscal year 2005. Future budget processes will present difficult balancing of covering mandated services and expenditures while maintaining a conservative attitude with the tax levy rates.

#### **CONTACTING CHEROKEE COUNTY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide Cherokee County's citizens, taxpayers, customers, and creditors with a general overview of Cherokee County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Cherokee County Auditors Office, 520 West Main, Cherokee, Iowa.

CHEROKEE COUNTY  
STATEMENT OF NET ASSETS  
JUNE 30, 2004

Exhibit A

Governmental  
Activities

ASSETS

|  |                   |
|--|-------------------|
| Cash and pooled investments                      | \$ 5,821,482      |
| Receivables:                                     |                   |
| Property tax:                                    |                   |
| Delinquent                                       | 1,751             |
| Succeeding year                                  | 2,833,478         |
| Interest and penalty on property tax             | 2,145             |
| Accounts   | 207,493           |
| Accrued interest                                 | 18,302            |
| Due from other governments                       | 70,185            |
| Inventories                                      | 330,814           |
| Prepaid expense                                  | 248,510           |
| Capital assets (net of accumulated depreciation) | 12,091,826        |
| Total assets                                     | <u>21,625,986</u> |

LIABILITIES

|   |                  |
|---|------------------|
| Accounts payable                        | 346,192          |
| Due to other governments                | 19,678           |
| Deferred revenue:                       |                  |
| Succeeding year property tax            | 2,833,478        |
| Long-term liabilities:                  |                  |
| Portion due or payable within one year: |                  |
| Compensated absences                    | 187,107          |
| Total liabilities                       | <u>3,386,455</u> |

NET ASSETS

|                            |                      |
|----------------------------|----------------------|
| Invested in capital assets | 12,091,826           |
| Restricted for:            |                      |
| Mental health purposes     | 368,086              |
| Rural service purposes     | 377,551              |
| Secondary roads purposes   | 3,147,892            |
| Capital projects           | 7,638                |
| Other purposes             | 366,341              |
| Unrestricted               | 1,880,197            |
| Total net assets           | <u>\$ 18,239,531</u> |

See notes to financial statements.



CHEROKEE COUNTY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2004

Exhibit B

|   |                     |                        | Program Revenues  |   | Net (Expense)<br>Revenue and<br>Changes in<br>Net Assets |
|---|---------------------|------------------------|---|---|--|
|   |                     |                        | Operating Grants,<br>Contributions,<br>and Restricted<br>Interest | Capital Grants,<br>Contributions,<br>and Restricted<br>Interest |  |
| Functions/Programs                        | Expenses            | Charges for<br>Service |   |   |  |
| Governmental activities:                  |                     |                        |   |   |  |
| Public safety and legal services          | \$ 1,391,714        | \$ 90,914              | \$ 4,887  | \$ -  | \$ (1,295,913)   |
| Physical health and social services       | 665,880             | 341,438                | 143,627   | -   | (180,815)  |
| Mental health                             | 946,653             | 342                    | 576,760   | -   | (369,551)  |
| County environment and education          | 431,762             | 4,463                  | 19,398  | -   | (407,901)  |
| Roads and transportation                  | 2,886,480           | 48,935                 | 2,493,975   | 2,909,546   | 2,565,976  |
| Governmental services to residents        | 260,544             | 242,317                | 197,738   | -   | 179,511  |
| Administration                            | 1,073,007           | 36,193                 | -   | -   | (1,036,814)  |
| Total                                     | <u>\$ 7,656,040</u> | <u>\$ 764,602</u>      | <u>\$ 3,436,385</u>   | <u>\$ 2,909,546</u>   | <u>(545,507)</u>   |
| General Revenues:                         |                     |                        |   |   |  |
| Property and other county tax levied for: |                     |                        |   |   |  |
| General purposes                          |                     |                        |   |   | 3,435,173  |
| Penalty and interest on property tax      |                     |                        |   |   | 35,187   |
| State tax credits                         |                     |                        |   |   | 211,606  |
| Tax increment financing                   |                     |                        |   |   | 109,332  |
| Grants and contributions not restricted   |                     |                        |   |   |  |
| to specific purpose                       |                     |                        |   |   | 72,224   |
| Unrestricted investment earnings          |                     |                        |   |   | 107,539  |
| Miscellaneous                             |                     |                        |   |   | <u>27,639</u>  |
| Total general revenues                    |                     |                        |   |   | <u>3,998,700</u>   |
| Change in net assets                      |                     |                        |   |   | 3,453,193  |
| Net assets beginning of year              |                     |                        |   |   | <u>14,786,338</u>  |
| Net assets end of year                    |                     |                        |   |   | <u>\$ 18,239,531</u>                                     |

See notes to financial statements.

CHEROKEE COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

Exhibit C

|                                      |                     | Special Revenue   |                     |                    |                   |                     |
|--------------------------------------|---------------------|-------------------|---------------------|--------------------|-------------------|---------------------|
|                                      | General             | Mental Health     | Rural Services      | Secondary Roads    | Nonmajor          | Total               |
| <b>ASSETS</b>                        |                     |                   |                     |                    |                   |                     |
| Cash and pooled investments          | \$ 1,673,847        | \$ 494,523        | \$ 330,796          | \$2,981,003        | \$ 332,543        | \$ 5,812,712        |
| Receivables:                         |                     |                   |                     |                    |                   |                     |
| Accounts                             | 76,445              | 25,278            | 46,090              | 18,354             | 41,326            | 207,493             |
| Property tax:                        |                     |                   |                     |                    |                   |                     |
| Delinquent                           | 1,218               | 245               | 288                 | -                  | -                 | 1,751               |
| Succeeding year                      | 1,655,572           | 331,115           | 812,625             | -                  | 34,166            | 2,833,478           |
| Interest and penalty on property tax | 2,145               | -                 | -                   | -                  | -                 | 2,145               |
| Accrued interest                     | 18,302              | -                 | -                   | -                  | -                 | 18,302              |
| Due from other governments           | 69,093              | 163               | 211                 | -                  | 718               | 70,185              |
| Prepaid expense                      | 154,411             | 1,067             | 439                 | 92,593             | -                 | 248,510             |
| Inventories                          | -                   | -                 | -                   | 330,814            | -                 | 330,814             |
| Total assets                         | <u>\$ 3,651,033</u> | <u>\$ 852,391</u> | <u>\$ 1,190,449</u> | <u>\$3,422,764</u> | <u>\$ 408,753</u> | <u>\$ 9,525,390</u> |
| <b>LIABILITIES AND FUND BALANCES</b> |                     |                   |                     |                    |                   |                     |
| Liabilities:                         |                     |                   |                     |                    |                   |                     |
| Accounts payable                     | \$ 31,148           | \$ 126,911        | \$ 272              | \$ 176,634         | \$ 608            | \$ 335,573          |
| Due to other governments             | 2,469               | 17,073            | -                   | 136                | -                 | 19,678              |
| Deferred revenue:                    |                     |                   |                     |                    |                   |                     |
| Succeeding year property tax         | 1,655,572           | 331,115           | 812,625             | -                  | 34,166            | 2,833,478           |
| Other                                | 3,224               | 234               | 279                 | -                  | -                 | 3,737               |
| Total liabilities                    | <u>1,692,413</u>    | <u>475,333</u>    | <u>813,176</u>      | <u>176,770</u>     | <u>34,774</u>     | <u>3,192,466</u>    |
| Fund balances:                       |                     |                   |                     |                    |                   |                     |
| Reserved for:                        |                     |                   |                     |                    |                   |                     |
| Inventories                          | -                   | -                 | -                   | 330,814            | -                 | 330,814             |
| Unreserved, reported in:             |                     |                   |                     |                    |                   |                     |
| General fund                         | 1,958,620           | -                 | -                   | -                  | -                 | 1,958,620           |
| Special revenue funds                | -                   | 377,058           | 377,273             | 2,915,180          | 366,341           | 4,035,852           |
| Capital projects fund                | -                   | -                 | -                   | -                  | 7,638             | 7,638               |
| Total fund balances                  | <u>1,958,620</u>    | <u>377,058</u>    | <u>377,273</u>      | <u>3,245,994</u>   | <u>373,979</u>    | <u>6,332,924</u>    |
| Total liabilities and fund balances  | <u>\$ 3,651,033</u> | <u>\$ 852,391</u> | <u>\$ 1,190,449</u> | <u>\$3,422,764</u> | <u>\$ 408,753</u> | <u>\$ 9,525,390</u> |

See notes to financial statements.

CHEROKEE COUNTY  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2004

Exhibit D

|  |                     |
|--|---------------------|
| Total governmental fund balances   | \$ 6,332,924        |
| Amounts reported for governmental activities in the Statement of Net Assets are different because:   |                     |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$15,712,384 and the accumulated depreciation is \$3,620,558.  | 12,091,826          |
| Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds.   | 3,737               |
| The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. | (1,849)             |
| Compensated absences payable are not due and payable in the current period and, therefore, are not reported in the funds.  | <u>(187,107)</u>    |
| Net assets of governmental activities  | <u>\$18,239,531</u> |

See notes to financial statements.

CHEROKEE COUNTY  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2004

Exhibit E

|   |                    | Special Revenue   |                    |                    |                   |                     |
|---|--------------------|-------------------|--------------------|--------------------|-------------------|---------------------|
|   | General            | Mental Health     | Rural Services     | Secondary Roads    | Nonmajor          | Total               |
| Revenues:   |                    |                   |                    |                    |                   |                     |
| Property and other County tax                     | \$1,744,403        | \$ 392,028        | \$ 1,180,434       | \$ -               | \$ 119,327        | \$ 3,436,192        |
| Interest and penalty on property tax              | 35,093             | -                 | -                  | -                  | -                 | 35,093              |
| Tax increment financing revenues                  | -                  | -                 | -                  | -                  | 109,332           | 109,332             |
| Intergovernmental                                 | 816,998            | 602,522           | 47,075             | 2,747,979          | 17,880            | 4,232,454           |
| Licenses and permits                              | 86,921             | -                 | 950                | 15,582             | -                 | 103,453             |
| Charges for service                               | 279,744            | 312               | 475                | 1,026              | 39,985            | 321,542             |
| Use of money and property                         | 116,774            | -                 | -                  | 5,504              | 782               | 123,060             |
| Miscellaneous                                     | 34,411             | 30                | 2,141              | 21,158             | 1,776             | 59,516              |
| Total revenues                                    | <u>3,114,344</u>   | <u>994,892</u>    | <u>1,231,075</u>   | <u>2,791,249</u>   | <u>289,082</u>    | <u>8,420,642</u>    |
| Expenditures:                                     |                    |                   |                    |                    |                   |                     |
| Operating:  |                    |                   |                    |                    |                   |                     |
| Public safety and legal services                  | 1,369,519          | -                 | -                  | -                  | 606               | 1,370,125           |
| Physical health and social services               | 658,844            | -                 | -                  | -                  | 4,200             | 663,044             |
| Mental health                                     | -                  | 942,271           | -                  | -                  | -                 | 942,271             |
| County environment and education                  | 217,401            | -                 | 214,971            | -                  | 21,800            | 454,172             |
| Roads and transportation                          | -                  | -                 | -                  | 2,764,505          | -                 | 2,764,505           |
| Governmental services to residents                | 249,007            | -                 | -                  | -                  | 1,093             | 250,100             |
| Administration                                    | 752,367            | -                 | -                  | -                  | 158,666           | 911,033             |
| Capital projects                                  | -                  | -                 | -                  | 2,383,622          | 272,440           | 2,656,062           |
| Total expenditures                                | <u>3,247,138</u>   | <u>942,271</u>    | <u>214,971</u>     | <u>5,148,127</u>   | <u>458,805</u>    | <u>10,011,312</u>   |
| Excess (deficiency) of revenues over expenditures | <u>(132,794)</u>   | <u>52,621</u>     | <u>1,016,104</u>   | <u>(2,356,878)</u> | <u>(169,723)</u>  | <u>(1,590,670)</u>  |
| Other financing sources (uses):                   |                    |                   |                    |                    |                   |                     |
| Sale of assets                                    | 1,476              | -                 | -                  | 19,410             | -                 | 20,886              |
| Operating transfers in                            | 22,675             | -                 | -                  | 1,125,000          | 75,000            | 1,222,675           |
| Operating transfers out                           | (100,000)          | (22,675)          | (1,100,000)        | -                  | -                 | (1,222,675)         |
| Total other financing sources (uses)              | <u>(75,849)</u>    | <u>(22,675)</u>   | <u>(1,100,000)</u> | <u>1,144,410</u>   | <u>75,000</u>     | <u>20,886</u>       |
| Net change in fund balances                       | (208,643)          | 29,946            | (83,896)           | (1,212,468)        | (94,723)          | (1,569,784)         |
| Fund balances, beginning of year                  | <u>2,167,263</u>   | <u>347,112</u>    | <u>461,169</u>     | <u>4,458,462</u>   | <u>468,702</u>    | <u>7,902,708</u>    |
| Fund balances, end of year                        | <u>\$1,958,620</u> | <u>\$ 377,058</u> | <u>\$ 377,273</u>  | <u>\$3,245,994</u> | <u>\$ 373,979</u> | <u>\$ 6,332,924</u> |

See notes to financial statements.

CHEROKEE COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2004

Exhibit F

Net change in fund balances - Total governmental funds \$(1,569,784)

Amounts reported for governmental activities in the Statement of  
 Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation expense in the current year as follows:

|   |                  |           |
|---|------------------|-----------|
| Expenditures for capital assets                                     | \$2,815,933      |           |
| Capital assets contributed by the Iowa Department of Transportation | 2,655,542        |           |
| Depreciation expense  | <u>(395,655)</u> | 5,075,820 |

In the Statement of Activities, the gain on the disposition of capital assets is reported whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (6,000)

Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds as follows:

|              |           |       |
|--------------|-----------|-------|
| Property tax | (1,019)   |       |
| Other        | <u>94</u> | (925) |

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

|                      |       |
|----------------------|-------|
| Compensated absences | 3,375 |
|----------------------|-------|

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. (49,293)

Change in net assets of governmental activities \$ 3,453,193

See notes to financial statements.

CHEROKEE COUNTY  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2004

Exhibit G

Internal  
Service-  
Employee  
Group  
Health

ASSETS

Cash

\$ 8,770

LIABILITIES

Accounts payable

10,619

NET ASSETS

Unrestricted

\$ (1,849)

See notes to financial statements.

CHEROKEE COUNTY  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2004

Exhibit H

Internal  
Service-  
Employee  
Group  
Health

|                                     |              |                   |
|-------------------------------------|--------------|-------------------|
| Operating revenues:                 |              |                   |
| Reimbursements from employees       | \$ 11,196    |                   |
| Reimbursements from operating funds | 20,000       |                   |
| Insurance reimbursements            | <u>7,570</u> | \$ 38,766         |
| Operating expenses:                 |              |                   |
| Medical claims                      | 47,013       |                   |
| Insurance premiums                  | 34,301       |                   |
| Administrative fees                 | <u>7,067</u> | <u>88,381</u>     |
| Operating loss                      |              | (49,615)          |
| Non-operating revenues:             |              |                   |
| Interest income                     |              | <u>322</u>        |
| Net loss                            |              | (49,293)          |
| Net assets beginning of year        |              | <u>47,444</u>     |
| Net assets end of year              |              | <u>\$ (1,849)</u> |

See notes to financial statements.

CHEROKEE COUNTY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2004

Exhibit I

Internal  
Service-  
Employee  
Group  
Health

|  |                    |
|--|--------------------|
| Cash flows from operating activities:  |                    |
| Cash received from employees   | \$ 12,746          |
| Cash received from operating fund reimbursements   | 20,000             |
| Cash payments to suppliers for services  | <u>(81,875)</u>    |
| Net cash used by operating activities  | (49,129)           |
| <br>Cash flows from investing activities:  |                    |
| Interest on investments  | <u>322</u>         |
| <br>Net decrease in cash and cash equivalents  | (48,807)           |
| <br>Cash and cash equivalents at beginning of year   | <u>57,577</u>      |
| <br>Cash and cash equivalents at end of year   | <u>\$ 8,770</u>    |
| <br>Reconciliation of operating income to net cash<br>provided by operating activities:    |                    |
| Operating loss   | \$ (49,615)        |
| Adjustments to reconcile operating income to net<br>cash provided by operating activities: |                    |
| Increase in accounts payable   | <u>486</u>         |
| <br>Net cash used by operating activities  | <u>\$ (49,129)</u> |

See notes to financial statements.



CHEROKEE COUNTY  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
JUNE 30, 2004

Exhibit J

ASSETS

|                              |                   |
|------------------------------|-------------------|
| Cash and pooled investments: |                   |
| County treasurer             | \$ 800,453        |
| Other county officials       | 64,064            |
| Receivables:                 |                   |
| Property tax:                |                   |
| Delinquent                   | 9,650             |
| Succeeding year              | 10,453,232        |
| Accounts                     | 9,665             |
| Special assessments          | 96,872            |
| Due from other governments   | 135,059           |
| Prepaid insurance            | 3,675             |
| Total assets                 | <u>11,572,670</u> |

LIABILITIES

|                          |                   |
|--------------------------|-------------------|
| Accounts payable         | 2,786             |
| Trusts payable           | 30,606            |
| Due to other governments | <u>11,539,278</u> |
| Total liabilities        | <u>11,572,670</u> |

|            |             |
|------------|-------------|
| Net Assets | <u>\$ -</u> |
|------------|-------------|

See notes to financial statements.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cherokee County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Cherokee County has included all funds, organizations, agencies, boards, commissions, and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the County. The County has no component units that meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Cherokee County Assessor's Conference Board, Cherokee County E911 Service Board, Plains Area Mental Health, Cherokee County Solid Waste Commission, and the Northwest Iowa Multicounty Regional Juvenile Detention Center. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in Agency Funds of the County.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the County. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

The Statement of Net Assets presents the County's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

*Invested in capital assets* consists of capital assets net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for secondary road construction and maintenance.

Additionally, the County reports the following funds:

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

Proprietary Fund - An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the County and provided to other departments or agencies on a cost reimbursement basis.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

Fiduciary Funds - Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For the purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues, (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursements grant resources to such programs, followed by categorical block grants, and then by general revenues.

The proprietary fund of the County applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Fund is charges to customers for sales and services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting - (Continued)

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments, and Cash Equivalents - The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property taxes receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004; and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2003.

Interest and Penalty on Property Tax Receivable - Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Reported inventories in the governmental fund financial statements are equally offset by a fund balance reserve which indicates that they are not available to liquidate current obligations.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Assets, Liabilities and Fund Equity - (Continued)

Capital Assets - Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

| <u>Asset Class</u> | <u>Amount</u> |
|--------------------|---------------|
| Projects           | \$65,000      |
| Buildings          | 25,000        |
| Equipment          | 10,000        |

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

| <u>Asset Class</u>     | <u>Estimated<br/>Useful Lives<br/>(In Years)</u> |
|------------------------|--|
| Buildings              | 15-100   |
| Infrastructure         | 20-50  |
| Equipment and vehicles | 2-25   |

Due to Other Governments - Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable - Trusts payable represent amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of the succeeding year property tax receivable, as well as delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Assets, Liabilities and Fund Equity - (Continued)

Compensated Absences - County employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide, proprietary fund, and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, and Secondary Roads Funds.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted in any functions.

2. CASH AND POOLED INVESTMENTS

The County's deposits in banks at June 30, 2004 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County had no investments meeting the disclosure requirements of Government Auditing Standards Board Statement Number 3.

3. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|--------------------|----------------------|---------------|
| Special Revenue:   |                      |               |
| Secondary Roads    | General              | \$ 25,000     |
|                    | Special Revenue:     |               |
|                    | Rural Services       | 1,100,000     |

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

3. INTERFUND TRANSFERS - (Continued)

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u>      |
|--------------------|----------------------|--------------------|
| Capital Projects   | General              | \$ 75,000          |
| General            | Mental Health        | <u>22,675</u>      |
| Total              |                      | <u>\$1,222,675</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2004 was as follows:

|   | <u>Balance<br/>Beginning<br/>of Year</u> | <u>Increases</u>    | <u>Decreases</u>     | <u>Balance<br/>End<br/>of Year</u> |
|---|--|---------------------|----------------------|------------------------------------|
| Governmental activities:                    |  |                     |                      |                                    |
| Capital assets not being depreciated:       |  |                     |                      |                                    |
| Land  | \$ 54,750                                | \$ 126,000          | \$ -                 | \$ 180,750                         |
| Construction in progress                    | <u>2,473,140</u>                         | <u>4,916,193</u>    | <u>(4,876,618)</u>   | <u>2,512,715</u>                   |
| Total capital assets not being depreciated  | <u>2,527,890</u>                         | <u>5,042,193</u>    | <u>(4,876,618)</u>   | <u>2,693,465</u>                   |
| Capital assets being depreciated:           |  |                     |                      |                                    |
| Buildings                                   | 3,486,788                                | 21,792              | -                    | 3,508,580                          |
| Improvements other than buildings           | 9,750                                    | -                   | -                    | 9,750                              |
| Equipment and vehicles                      | 4,663,109                                | 826,598             | (567,158)            | 4,922,549                          |
| Infrastructure                              | <u>-</u>                                 | <u>4,578,040</u>    | <u>-</u>             | <u>4,578,040</u>                   |
| Total capital assets being depreciated      | <u>8,159,647</u>                         | <u>5,426,430</u>    | <u>(567,158)</u>     | <u>13,018,919</u>                  |
| Less accumulated depreciation for:          |  |                     |                      |                                    |
| Buildings                                   | 1,481,172                                | 48,848              | -                    | 1,530,020                          |
| Improvements other than buildings           | 1,159                                    | 488                 | -                    | 1,647                              |
| Equipment and vehicles                      | 2,183,200                                | 271,099             | (440,628)            | 2,013,671                          |
| Infrastructure                              | <u>-</u>                                 | <u>75,220</u>       | <u>-</u>             | <u>75,220</u>                      |
| Total accumulated depreciation              | <u>3,665,531</u>                         | <u>395,655</u>      | <u>(440,628)</u>     | <u>3,620,558</u>                   |
| Total capital assets being depreciated, net | <u>4,494,116</u>                         | <u>5,030,775</u>    | <u>(126,530)</u>     | <u>9,398,361</u>                   |
| Governmental activities capital assets, net | <u>\$7,022,006</u>                       | <u>\$10,072,968</u> | <u>\$(5,003,148)</u> | <u>\$12,091,826</u>                |



CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

4. CAPITAL ASSETS - (Continued)

Depreciation expense was charged to the following functions:

|  |                  |
|--|------------------|
| Governmental activities:                             |                  |
| Public safety and legal services                     | \$ 38,075        |
| Physical health and social services                  | 3,003            |
| Mental health  | 3,274            |
| County environment and education                     | 7,853            |
| Roads and transportation                             | 294,535          |
| Governmental services to residents                   | 4,800            |
| Administration                                       | <u>44,115</u>    |
| Total depreciation expense - governmental activities | <u>\$395,655</u> |

5. DUE TO OTHER GOVERNMENTS

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. The Agency Fund collections also include accruals of property tax for the succeeding year. The tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

| <u>Fund</u>              | <u>Description</u> | <u>Amount</u>       |
|--------------------------|--------------------|---------------------|
| General                  | Services           | \$ <u>2,469</u>     |
| Special Revenue:         |                    |                     |
| Mental Health            | Services           | 17,073              |
| Secondary Roads          |                    | <u>136</u>          |
|                          |                    | <u>17,209</u>       |
| Trust and Agency:        |                    |                     |
| County Assessor          | Collections        | 454,033             |
| Schools                  |                    | 7,127,464           |
| Community Colleges       |                    | 279,403             |
| Corporations             |                    | 2,605,991           |
| Townships                |                    | 175,616             |
| Auto License and Use Tax |                    | 245,354             |
| Agricultural Extension   |                    | 144,014             |
| All other                |                    | <u>507,403</u>      |
|                          |                    | <u>11,539,278</u>   |
| Total                    |                    | <u>\$11,558,956</u> |

6. CHANGES IN LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

|                            |                  |
|----------------------------|------------------|
| Compensated Absences:      |                  |
| Balance, beginning of year | \$190,482        |
| Decreases                  | <u>3,375</u>     |
| Balance, end of year       | <u>\$187,107</u> |
| Due within one year        | <u>\$187,107</u> |

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

7. PENSION AND RETIREMENT BENEFITS

The County contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll except for law enforcement employees, in which case the percentages for the year ended June 30, 2004 are 4.99% and 7.48%, respectively. For the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 8.05%, respectively, and for the year ended June 30, 2002, the contribution rates for law enforcement employees and the County were 5.50% and 8.25%, respectively. Contribution requirements are established by State statute. The County's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$182,600, \$178,994, and \$167,799 respectively, equal to the required contributions for each year.

8. RISK MANAGEMENT

Cherokee County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 400 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claim expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2004 were \$93,947.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

8. RISK MANAGEMENT - (Continued)

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks including automobile physical damage are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the County's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$5,000,000 and \$20,000, respectively. The County Treasurer and County Sheriff have excess coverage of \$130,000 and \$30,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

9. EMPLOYEE HEALTH INSURANCE PLAN

The Cherokee County Employee Group Health Fund was established to account for the partial self funding of the County's health insurance benefit plan. Effective July 1, 1994, Cherokee County entered into an administrative services agreement with Blue Cross and Blue Shield of Iowa to administer the plan. The agreement is subject to automatic renewal provisions.

Monthly contributions to the Cherokee County Employee Group Health Fund are recorded as expenditures from the operating funds. These contributions represent the difference between premiums required for a higher versus a lower deductible. Expenditures from the Cherokee County Employee Group Health Fund include employee reimbursements of medical claims up to the individual's funded deductible and administrative costs.

The County Treasurer invests the balance in the Cherokee County Employee Group Health Fund. The County records the plan assets and related liabilities in an Internal Service Fund.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

10. INTERGOVERNMENTAL AGREEMENT

The County participates in an agreement with Cherokee County Solid Waste Commission, a political subdivision created under Chapter 28E of the Code of Iowa. The purpose of the Commission includes providing economic disposal of solid waste produced or generated within the member county and municipalities. Payments to that commission totaled \$105,975 during the year ended June 30, 2004.

State and federal laws and regulations require the Commission to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The total costs to the Commission have been estimated at \$1,094,195 as of June 30, 2004 and the portion of the liability that has been recognized is \$915,891. The Commission has begun to accumulate resources to fund these costs, and at June 30, 2004 deposits of \$180,158 are held for these purposes. The closure care account is fully funded at June 30, 2004, however, the local government guaranty was used in prior years for the Commission to demonstrate financial assurance for postclosure care costs. The Commission obtained the local government guaranty from Cherokee County on June 10, 1997. No estimate has been made as to the effect of possible future assessments to the County.

11. CONTINGENCIES

The County was involved in various lawsuits as of June 30, 2004.

The remaining case involves alleged deprivation of constitutional rights. Discovery is underway but no opinion has been made regarding the outcome of the case or possible damages that might be awarded.

12. DEVELOPMENT AND REBATE AGREEMENT

The County has entered into development agreements to assist in urban renewal projects. The County agreed to rebate incremental taxes paid by the developer in exchange for infrastructure improvements constructed by the developer as set forth in the urban renewal plan. Under the first agreement, the incremental taxes to be received by the County under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The total amount that will be rebated over the ten year period under the development and rebate agreement cannot be determined. The amount to be rebated each year will be 65% of the property taxes calculated on a minimum value of \$4,000,000. During the year ended June 30, 2004, the County rebated \$100,566 of incremental taxes to the developer. No bonds or notes were issued for this construction project.

Under the second agreement, the incremental taxes to be received by the County under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The total amount that will be rebated over the ten year period under the development and rebate agreement cannot be determined. The amount to be rebated each year will be 65% of the property taxes calculated. During the year ended June 30, 2004, the County rebated \$8,765 of incremental taxes to the developer. No bonds or notes were issued for this construction project.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

13. JUVENILE DETENTION CENTER

The County participates in Northwest Iowa Multicounty Regional Juvenile Detention Center, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Center is to establish and maintain a juvenile detention facility and related services. The Center does not determine capital allocations of the equity interest for individual participating jurisdictions. The Center issues separate financial statements on the accrual basis, and the transactions of the Center are not included in the financial statements of the County. The Center's activity for the fiscal year ending June 30, 2004, which is the latest information available, is summarized as follows:

|                               |                  |
|-------------------------------|------------------|
| Net assets, beginning of year | \$192,980        |
| Revenues                      | 548,919          |
| Expenses                      | <u>493,392</u>   |
| Net assets, end of year       | <u>\$248,507</u> |

The financial statements of the Center are available at the Center's administrative office in Cherokee, Iowa.

14. RELATED PARTY TRANSACTIONS

The County had business transactions between the County and County officials or employees totaling \$52,120 during the year ended June 30, 2004.

15. ACCOUNTING CHANGE AND RESTATEMENTS

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the County's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

15. ACCOUNTING CHANGE AND RESTATEMENTS - (Continued)

The government-wide financial statements report the County's governmental activities. Beginning net assets for governmental activities has been restated to include capital assets, the Internal Service Fund and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

|  | <u>Amount</u>       |
|--|---------------------|
| Net assets June 30, 2003, as previously reported               | \$ 8,089,781        |
| Restatement of beginning inventory                             | <u>(187,073)</u>    |
| Restated net assets June 30, 2003, as previously reported      | 7,902,708           |
| <br>GASB 34 adjustments:                                       |                     |
| Capital assets, net of accumulated depreciation of \$3,665,531 | 7,022,006           |
| Internal Service Fund  | 47,444              |
| Long-term liabilities  | (190,482)           |
| Deferral of long-term assets                                   | <u>4,662</u>        |
| Net assets July 1, 2003, as restated                           | <u>\$14,786,338</u> |

16. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

## REQUIRED SUPPLEMENTARY INFORMATION

CHEROKEE COUNTY  
 BUDGETARY COMPARISON  
 SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CHANGES IN BALANCES - BUDGET  
 AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2004

|  | Actual              | Budgeted Amounts    |                     | Final to<br>Actual<br>Variance |
|--|---------------------|---------------------|---------------------|--------------------------------|
|  |                     | Original            | Final               |                                |
| Receipts:  |                     |                     |                     |                                |
| Property and other County tax  | \$ 3,466,370        | \$ 3,322,670        | \$ 3,322,670        | \$ 143,700                     |
| Interest and penalty on property tax   | 35,032              | 8,850               | 8,850               | 26,182                         |
| Tax increment financing revenues   | 109,332             | 109,332             | 109,332             | -                              |
| Intergovernmental  | 4,440,000           | 4,204,580           | 4,204,580           | 235,420                        |
| Licenses and permits   | 31,938              | 19,532              | 19,532              | 12,406                         |
| Charges for service  | 300,433             | 236,530             | 236,530             | 63,903                         |
| Use of money and property  | 131,077             | 317,250             | 317,250             | (186,173)                      |
| Miscellaneous  | 62,659              | 31,725              | 31,725              | 30,934                         |
| Total receipts   | <u>8,576,841</u>    | <u>8,250,469</u>    | <u>8,250,469</u>    | <u>326,372</u>                 |
| Disbursements:   |                     |                     |                     |                                |
| Public safety and legal services   | 1,393,805           | 1,459,456           | 1,489,456           | 95,651                         |
| Physical health and social services  | 665,021             | 716,779             | 716,779             | 51,758                         |
| Mental health  | 894,944             | 1,124,846           | 1,124,846           | 229,902                        |
| County environment and education   | 463,525             | 507,981             | 512,981             | 49,456                         |
| Roads and transportation   | 2,686,213           | 2,965,500           | 2,965,500           | 279,287                        |
| Governmental services to residents   | 250,768             | 254,807             | 254,807             | 4,039                          |
| Administration   | 975,142             | 1,070,481           | 1,090,481           | 115,339                        |
| Capital projects   | <u>2,647,005</u>    | <u>3,322,000</u>    | <u>3,322,000</u>    | <u>674,995</u>                 |
| Total disbursements  | <u>9,976,423</u>    | <u>11,421,850</u>   | <u>11,476,850</u>   | <u>1,500,427</u>               |
| Excess (deficiency) of receipts over disbursements   | (1,399,582)         | (3,171,381)         | (3,226,381)         | 1,826,799                      |
| Other financing sources, net   | <u>20,886</u>       | <u>605</u>          | <u>605</u>          | <u>20,281</u>                  |
| Excess (deficiency) of receipts and other financing<br>sources over disbursements and other financing uses | (1,378,696)         | (3,170,776)         | (3,225,776)         | 1,847,080                      |
| Balance beginning of year  | <u>7,191,408</u>    | <u>6,868,936</u>    | <u>7,191,405</u>    | <u>3</u>                       |
| Balance end of year  | <u>\$ 5,812,712</u> | <u>\$ 3,698,160</u> | <u>\$ 3,965,629</u> | <u>\$ 1,847,083</u>            |

See accompanying independent auditor's report.



CHEROKEE COUNTY  
BUDGETARY COMPARISON SCHEDULE-BUDGET  
TO GAAP RECONCILIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2004

|                              | <u>Governmental Funds</u>   |                                      |   |
|------------------------------|-----------------------------|--------------------------------------|---|
|                              | <u>Cash</u><br><u>Basis</u> | <u>Accrual</u><br><u>Adjustments</u> | <u>Modified</u><br><u>Accrual</u><br><u>Basis</u> |
| Revenues                     | \$ 8,576,841                | \$ (156,199)                         | \$ 8,420,642                                      |
| Expenditures                 | <u>9,976,423</u>            | <u>34,889</u>                        | <u>10,011,312</u>                                 |
| Net                          | (1,399,582)                 | (191,088)                            | (1,590,670)                                       |
| Other financing sources, net | 20,886                      | -                                    | 20,886  |
| Beginning fund balances      | <u>7,191,408</u>            | <u>711,300</u>                       | <u>7,902,708</u>                                  |
| Ending fund balances         | <u>\$ 5,812,712</u>         | <u>\$ 520,212</u>                    | <u>\$ 6,332,924</u>                               |

See accompanying independent auditor's report.

CHEROKEE COUNTY  
NOTES TO REQUIRED SUPPLEMENTARY  
INFORMATION - BUDGETARY REPORTING  
JUNE 30, 2004

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except blended component units and Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund or fund type. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service, and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, one budget amendment increased budgeted disbursements by \$55,000. The budget amendment is reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the E911 Service Board, and for Disaster Services by the Cherokee County Emergency Management Commission.

## OTHER SUPPLEMENTARY INFORMATION

CHEROKEE COUNTY  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2004

Schedule 1

|                                    | Special Revenue                              |  |                                    |  |                      |                               |  |                                      |                           |                                     |                     |                   |
|------------------------------------|--|--|------------------------------------|--|----------------------|-------------------------------|--|--------------------------------------|---------------------------|-------------------------------------|---------------------|-------------------|
|                                    | Resource<br>Enhancement<br>and<br>Protection | County<br>Recorder's<br>Record<br>Management | County<br>Government<br>Assistance | Recorder's<br>Electronic<br>Transaction<br>Fee | County<br>Betterment | Forfeited<br>Property<br>Fund | Hotel and<br>Flood<br>Relief<br>Grants | Urban<br>Renewal<br>Tax<br>Increment | Conservation<br>Education | Conservation<br>Land<br>Acquisition | Capital<br>Projects | Total             |
| <b>ASSETS</b>                      |  |  |                                    |  |                      |                               |  |                                      |                           |                                     |                     |                   |
| Cash and pooled investments        | \$ 58,226                                    | \$ 6,937                                     | \$ 44,521                          | \$ 22,734                                      | \$ 150,106           | \$ 1,995                      | \$ 33                                  | \$ 1                                 | \$ 2,724                  | \$ 37,628                           | \$ 7,638            | \$ 332,543        |
| Receivables:                       |  |  |                                    |  |                      |                               |  |                                      |                           |                                     |                     |                   |
| Accounts                           | -  | -  | -                                  | 14,196   | 25,364               | -                             | 1,766                                  | -                                    | -                         | -                                   | -                   | 41,326            |
| Property tax:                      |  |  |                                    |  |                      |                               |  |                                      |                           |                                     |                     |                   |
| Succeeding year                    | -  | -  | -                                  | -  | -                    | -                             | -                                      | 34,166                               | -                         | -                                   | -                   | 34,166            |
| Due from other governments         | -  | 671  | -                                  | -  | -                    | -                             | -                                      | 47                                   | -                         | -                                   | -                   | 718               |
| Total assets                       | <u>\$ 58,226</u>                             | <u>\$ 7,608</u>                              | <u>\$ 44,521</u>                   | <u>\$ 36,930</u>                               | <u>\$ 175,470</u>    | <u>\$ 1,995</u>               | <u>\$ 1,799</u>                        | <u>\$ 34,214</u>                     | <u>\$ 2,724</u>           | <u>\$ 37,628</u>                    | <u>\$ 7,638</u>     | <u>\$ 408,753</u> |
| <b>LIABILITIES AND FUND EQUITY</b> |  |  |                                    |  |                      |                               |  |                                      |                           |                                     |                     |                   |
| Liabilities:                       |  |  |                                    |  |                      |                               |  |                                      |                           |                                     |                     |                   |
| Accounts payable                   | \$ -   | \$ 608                                       | \$ -                               | \$ -   | \$ -                 | \$ -                          | \$ -                                   | \$ -                                 | \$ -                      | \$ -                                | \$ -                | \$ 608            |
| Deferred revenue:                  |  |  |                                    |  |                      |                               |  |                                      |                           |                                     |                     |                   |
| Succeeding year property tax       | -  | -  | -                                  | -  | -                    | -                             | -                                      | 34,166                               | -                         | -                                   | -                   | 34,166            |
| Total liabilities                  | <u>-</u>                                     | <u>608</u>                                   | <u>-</u>                           | <u>-</u>                                       | <u>-</u>             | <u>-</u>                      | <u>-</u>                               | <u>34,166</u>                        | <u>-</u>                  | <u>-</u>                            | <u>-</u>            | <u>34,774</u>     |
| Fund equity:                       |  |  |                                    |  |                      |                               |  |                                      |                           |                                     |                     |                   |
| Fund balances:                     |  |  |                                    |  |                      |                               |  |                                      |                           |                                     |                     |                   |
| Unreserved                         | 58,226                                       | 7,000  | 44,521                             | 36,930   | 175,470              | 1,995                         | 1,799                                  | 48                                   | 2,724                     | 37,628                              | 7,638               | 373,979           |
| Total liabilities and fund equity  | <u>\$ 58,226</u>                             | <u>\$ 7,608</u>                              | <u>\$ 44,521</u>                   | <u>\$ 36,930</u>                               | <u>\$ 175,470</u>    | <u>\$ 1,995</u>               | <u>\$ 1,799</u>                        | <u>\$ 34,214</u>                     | <u>\$ 2,724</u>           | <u>\$ 37,628</u>                    | <u>\$ 7,638</u>     | <u>\$ 408,753</u> |

See accompanying independent auditor's report.

CHEROKEE COUNTY  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2004

Schedule 2

|  | Special Revenue                              |  |                                    |  |                      |                               |  |                                      |                           |                                     |                     |            |
|--|--|--|------------------------------------|--|----------------------|-------------------------------|--|--------------------------------------|---------------------------|-------------------------------------|---------------------|------------|
|  | Resource<br>Enhancement<br>and<br>Protection | County<br>Recorder's<br>Record<br>Management | County<br>Government<br>Assistance | Recorder's<br>Electronic<br>Transaction<br>Fee | County<br>Betterment | Forfeited<br>Property<br>Fund | Hotel and<br>Flood<br>Relief<br>Grants | Urban<br>Renewal<br>Tax<br>Increment | Conservation<br>Education | Conservation<br>Land<br>Acquisition | Capital<br>Projects | Total      |
| Revenues:  |  |  |                                    |  |                      |                               |  |                                      |                           |                                     |                     |            |
| Property and other County tax  | \$ -   | \$ -   | \$ -                               | \$ -   | \$ 119,327           | \$ -                          | \$ -                                   | \$ -                                 | \$ -                      | \$ -                                | \$ -                | \$ 119,327 |
| Tax increment financing revenues   | -  | -  | -                                  | -  | -                    | -                             | -                                      | 109,332                              | -                         | -                                   | -                   | 109,332    |
| Intergovernmental  | 9,917  | -  | -                                  | -  | -                    | -                             | 7,916                                  | 47                                   | -                         | -                                   | -                   | 17,880     |
| Charges for service  | -  | 3,100  | -                                  | 36,885   | -                    | -                             | -                                      | -                                    | -                         | -                                   | -                   | 39,985     |
| Use of money and property  | 424  | 35   | -                                  | 45   | -                    | -                             | -                                      | -                                    | -                         | 278                                 | -                   | 782        |
| Miscellaneous  | -  | -  | -                                  | -  | -                    | 211                           | -                                      | -                                    | 1,565                     | -                                   | -                   | 1,776      |
| Total revenue  | 10,341                                       | 3,135  | -                                  | 36,930   | 119,327              | 211                           | 7,916                                  | 109,379                              | 1,565                     | 278                                 | -                   | 289,082    |
| Expenditures:  |  |  |                                    |  |                      |                               |  |                                      |                           |                                     |                     |            |
| Operating:   |  |  |                                    |  |                      |                               |  |                                      |                           |                                     |                     |            |
| Public safety and legal services   | -  | -  | -                                  | -  | -                    | 606                           | -                                      | -                                    | -                         | -                                   | -                   | 606        |
| Physical health and social services  | -  | -  | -                                  | -  | 4,200                | -                             | -                                      | -                                    | -                         | -                                   | -                   | 4,200      |
| County environment and education   | -  | -  | -                                  | -  | 20,000               | -                             | -                                      | -                                    | 1,800                     | -                                   | -                   | 21,800     |
| Governmental services to residents   | -  | 1,093  | -                                  | -  | -                    | -                             | -                                      | -                                    | -                         | -                                   | -                   | 1,093      |
| Administration   | -  | -  | 661                                | -  | 42,524               | -                             | 6,150                                  | 109,331                              | -                         | -                                   | -                   | 158,666    |
| Capital projects   | -  | -  | -                                  | -  | -                    | -                             | -                                      | -                                    | -                         | -                                   | 272,440             | 272,440    |
| Total expenditures   | -  | 1,093  | 661                                | -  | 66,724               | 606                           | 6,150                                  | 109,331                              | 1,800                     | -                                   | 272,440             | 458,805    |
| Excess (deficiency) of revenues over expenditures                                | 10,341                                       | 2,042  | (661)                              | 36,930   | 52,603               | (395)                         | 1,766                                  | 48                                   | (235)                     | 278                                 | (272,440)           | (169,723)  |
| Other financing sources:   |  |  |                                    |  |                      |                               |  |                                      |                           |                                     |                     |            |
| Operating transfers in   | -  | -  | -                                  | -  | -                    | -                             | -                                      | -                                    | -                         | -                                   | 75,000              | 75,000     |
| Excess (deficiency) of revenues and other financing<br>sources over expenditures | 10,341                                       | 2,042  | (661)                              | 36,930   | 52,603               | (395)                         | 1,766                                  | 48                                   | (235)                     | 278                                 | (197,440)           | (94,723)   |
| Fund balances beginning of year  | 47,885                                       | 4,958  | 45,182                             | -  | 122,867              | 2,390                         | 33                                     | -                                    | 2,959                     | 37,350                              | 205,078             | 468,702    |
| Fund balances end of year  | \$ 58,226                                    | \$ 7,000                                     | \$ 44,521                          | \$ 36,930                                      | \$ 175,470           | \$ 1,995                      | \$ 1,799                               | \$ 48                                | \$ 2,724                  | \$ 37,628                           | \$ 7,638            | \$ 373,979 |

See accompanying independent auditor's report.

CHEROKEE COUNTY  
COMBINING SCHEDULE OF FIDUCIARY ASSETS  
AND LIABILITIES - AGENCY FUNDS  
JUNE 30, 2004

Schedule 3

|                              | County<br>Offices | Agricultural<br>Extension | County<br>Assessor | Schools             | Community<br>Colleges | Corporations        | Townships         | Auto<br>License<br>and<br>Use Tax | Other             | Total                |
|------------------------------|-------------------|---------------------------|--------------------|---------------------|-----------------------|---------------------|-------------------|-----------------------------------|-------------------|----------------------|
| <b>ASSETS</b>                |                   |                           |                    |                     |                       |                     |                   |                                   |                   |                      |
| Cash and pooled investments: |                   |                           |                    |                     |                       |                     |                   |                                   |                   |                      |
| County treasurer             | \$ -              | \$ 2,040                  | \$ 135,161         | \$ 110,898          | \$ 6,423              | \$ 65,368           | \$ 2,241          | \$ 245,354                        | \$ 232,968        | \$ 800,453           |
| Other County officials       | 64,064            | -                         | -                  | -                   | -                     | -                   | -                 | -                                 | -                 | 64,064               |
| Receivables:                 |                   |                           |                    |                     |                       |                     |                   |                                   |                   |                      |
| Property tax:                |                   |                           |                    |                     |                       |                     |                   |                                   |                   |                      |
| Delinquent                   | -                 | 106                       | 231                | 5,663               | 200                   | 3,406               | 43                | -                                 | 1                 | 9,650                |
| Succeeding year              | -                 | 141,868                   | 315,240            | 7,010,903           | 272,780               | 2,537,217           | 173,332           | -                                 | 1,892             | 10,453,232           |
| Accounts                     | 5,702             | -                         | -                  | -                   | -                     | -                   | -                 | -                                 | 3,963             | 9,665                |
| Special assessments          | -                 | -                         | -                  | -                   | -                     | -                   | -                 | -                                 | 96,872            | 96,872               |
| Due from other governments   | -                 | -                         | -                  | -                   | -                     | -                   | -                 | -                                 | 135,059           | 135,059              |
| Prepaid insurance            | -                 | -                         | 3,401              | -                   | -                     | -                   | -                 | -                                 | 274               | 3,675                |
| Total assets                 | <u>\$ 69,766</u>  | <u>\$ 144,014</u>         | <u>\$ 454,033</u>  | <u>\$ 7,127,464</u> | <u>\$ 279,403</u>     | <u>\$ 2,605,991</u> | <u>\$ 175,616</u> | <u>\$ 245,354</u>                 | <u>\$ 471,029</u> | <u>\$ 11,572,670</u> |
| <b>LIABILITIES</b>           |                   |                           |                    |                     |                       |                     |                   |                                   |                   |                      |
| Accounts payable             | \$ -              | \$ -                      | \$ -               | \$ -                | \$ -                  | \$ -                | \$ -              | \$ -                              | \$ 2,786          | \$ 2,786             |
| Trusts payable               | 30,606            | -                         | -                  | -                   | -                     | -                   | -                 | -                                 | -                 | 30,606               |
| Due to other governments     | 39,160            | 144,014                   | 454,033            | 7,127,464           | 279,403               | 2,605,991           | 175,616           | 245,354                           | 468,243           | 11,539,278           |
| Total liabilities            | <u>\$ 69,766</u>  | <u>\$ 144,014</u>         | <u>\$ 454,033</u>  | <u>\$ 7,127,464</u> | <u>\$ 279,403</u>     | <u>\$ 2,605,991</u> | <u>\$ 175,616</u> | <u>\$ 245,354</u>                 | <u>\$ 471,029</u> | <u>\$ 11,572,670</u> |

See accompanying independent auditor's report.

CHEROKEE COUNTY  
 COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS  
 AND LIABILITIES - AGENCY FUNDS  
 YEAR ENDED JUNE 30, 2004

Schedule 4

|                                     | County<br>Offices | Agricultural<br>Extension | County<br>Assessor | Schools     | Community<br>Colleges | Corporations | Townships  | Auto<br>License<br>and<br>Use Tax | Other      | Total        |
|-------------------------------------|-------------------|---------------------------|--------------------|-------------|-----------------------|--------------|------------|-----------------------------------|------------|--------------|
| <b>ASSETS AND LIABILITIES</b>       |                   |                           |                    |             |                       |              |            |                                   |            |              |
| Balances beginning of year          | \$ 76,693         | \$ 146,446                | \$ 394,803         | \$7,721,748 | \$ 324,054            | \$ 2,652,472 | \$ 168,945 | \$ 251,302                        | \$ 449,543 | \$12,186,006 |
| Additions:                          |                   |                           |                    |             |                       |              |            |                                   |            |              |
| Property and other County tax       | -                 | 142,084                   | 315,667            | 7,022,084   | 273,285               | 2,442,262    | 174,593    | -                                 | 7,010      | 10,376,985   |
| E911 surcharge                      | -                 | -                         | -                  | -           | -                     | -            | -          | -                                 | 108,743    | 108,743      |
| State tax credits                   | -                 | 8,684                     | 14,987             | 458,943     | 18,906                | 178,172      | 8,881      | -                                 | 131        | 688,704      |
| Office fees and collections         | 392,278           | -                         | 3,921              | -           | -                     | -            | -          | -                                 | 549,589    | 945,788      |
| Electronic transaction fee          | -                 | -                         | -                  | -           | -                     | -            | -          | -                                 | 14,440     | 14,440       |
| Auto licenses, use tax, and postage | -                 | -                         | -                  | -           | -                     | -            | -          | 2,849,163                         | -          | 2,849,163    |
| Trusts                              | -                 | -                         | -                  | -           | -                     | -            | -          | -                                 | 88,912     | 88,912       |
| Miscellaneous                       | -                 | -                         | -                  | -           | -                     | -            | -          | -                                 | 38,289     | 38,289       |
| Total additions                     | 392,278           | 150,768                   | 334,575            | 7,481,027   | 292,191               | 2,620,434    | 183,474    | 2,849,163                         | 807,114    | 15,111,024   |
| Deductions:                         |                   |                           |                    |             |                       |              |            |                                   |            |              |
| Agency remittances:                 |                   |                           |                    |             |                       |              |            |                                   |            |              |
| To other governments                | 254,844           | 153,200                   | 275,345            | 8,075,311   | 336,842               | 2,666,915    | 176,803    | 2,855,111                         | 740,565    | 15,534,936   |
| Trusts paid out                     | 144,361           | -                         | -                  | -           | -                     | -            | -          | -                                 | 45,063     | 189,424      |
| Total deductions                    | 399,205           | 153,200                   | 275,345            | 8,075,311   | 336,842               | 2,666,915    | 176,803    | 2,855,111                         | 785,628    | 15,724,360   |
| Balances end of year                | \$ 69,766         | \$ 144,014                | \$ 454,033         | \$7,127,464 | \$ 279,403            | \$ 2,605,991 | \$ 175,616 | \$ 245,354                        | \$ 471,029 | \$11,572,670 |

See accompanying independent auditor's report.

CHEROKEE COUNTY  
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY  
FUNCTION - ALL GOVERNMENTAL FUNDS  
FOR THE LAST FOUR YEARS

Schedule 5

|                                      | Modified Accrual Basis |                     |                     |                     |
|--------------------------------------|------------------------|---------------------|---------------------|---------------------|
|                                      | <u>2004</u>            | <u>2003</u>         | <u>2002</u>         | <u>2001</u>         |
| Revenues:                            |                        |                     |                     |                     |
| Property and other County tax        | \$ 3,436,192           | \$ 3,334,378        | \$ 2,998,740        | \$ 2,674,910        |
| Interest and penalty on property tax | 35,093                 | 35,966              | 37,817              | 34,359              |
| Tax increment financing              | 109,332                | 99,114              | 50,219              | 76,206              |
| Intergovernmental                    | 4,232,454              | 5,161,854           | 4,065,881           | 4,280,771           |
| Licenses and permits                 | 103,453                | 39,489              | 37,266              | 18,147              |
| Charges for service                  | 321,542                | 242,519             | 220,468             | 245,184             |
| Use of money and property            | 123,060                | 187,829             | 287,402             | 484,823             |
| Miscellaneous                        | 59,516                 | 45,934              | 104,829             | 88,061              |
| Total                                | <u>\$ 8,420,642</u>    | <u>\$ 9,147,083</u> | <u>\$ 7,802,622</u> | <u>\$ 7,902,461</u> |
| Expenditures:                        |                        |                     |                     |                     |
| Operating:                           |                        |                     |                     |                     |
| Public safety and legal services     | \$ 1,370,125           | \$ 1,320,597        | \$ 1,231,163        | \$ 1,180,909        |
| Physical health and social services  | 663,044                | 647,641             | 654,557             | 626,248             |
| Mental health                        | 942,271                | 936,183             | 994,105             | 952,184             |
| County environment and education     | 454,172                | 443,347             | 430,844             | 417,167             |
| Roads and transportation             | 2,764,505              | 2,410,874           | 2,460,040           | 2,479,515           |
| Governmental services to residents   | 250,100                | 223,760             | 213,477             | 207,939             |
| Administration                       | 911,033                | 873,962             | 853,086             | 785,580             |
| Capital projects                     | 2,656,062              | 2,128,600           | 1,590,394           | 628,475             |
| Total                                | <u>\$10,011,312</u>    | <u>\$ 8,984,964</u> | <u>\$ 8,427,666</u> | <u>\$ 7,278,017</u> |

See accompanying independent auditor's report.



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Officials of Cherokee County:

We have audited the financial statements of Cherokee County as of and for the year ended June 30, 2004, and have issued our report thereon dated October 21, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Cherokee County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item II-E-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cherokee County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Cherokee County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-(A,B, and D)-04 are material weaknesses. Prior year reportable conditions have been resolved except for items I-(A,B,C, and E)-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Cherokee County and other parties to whom Cherokee County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Cherokee County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Kunzelman, Putzier & Co.*

October 21, 2004

CHEROKEE COUNTY

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-04     Segregation of Duties - During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County's financial statements. We noted that generally one or two individuals in an office may have control over the following areas for which no compensating controls exist.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, each official should review the operating procedures of their office to obtain the maximum internal control possible under the circumstances. The official should utilize current personnel to provide additional control through review of financial transactions, reconciliations, and reports. Such reviews should be performed by independent persons to the extent possible, and should be evidenced by initials or signature of the reviewer and the date of the review. Following are controls which should be implemented whenever possible:

1. All incoming mail should be opened by an employee who is not authorized to make entries to the accounting records. This employee should prepare a listing of cash and checks received. The mail should then be forwarded to the accounting personnel for processing. Later, the same listing should be compared to the cash receipt records.
2. Bank accounts should be reconciled promptly at the end of each month by an individual who does not sign checks, handle or record cash.
3. Checks or warrants should be signed by an individual who does not otherwise participate in the preparation of the checks or warrants. Prior to signing, the checks or warrants and the supporting documentation should be reviewed for propriety. After signing, the checks or warrants should be mailed without allowing them to return to individuals who prepare the checks or warrants or approve vouchers for payment.

Response - Each office maintains their own level of supervision for segregation of duties with respect to incoming mail, bank reconciliation, and checks and warrants signatures. The respective officer monitors the duties of all employees under their supervision to insure secure internal controls. With this in mind offices will try to implement the suggestions offered.

Conclusion - Response accepted.

CHEROKEE COUNTY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the General Purpose Financial Statements: (Continued)

REPORTABLE CONDITIONS: (Continued)

I-B-04     Special Law Enforcement Proceeds - The Sheriff's department receives funds as a result of property forfeitures which are not recorded in the County's records. All funds received should be recorded in a separate project within the General Fund or in a separate Special Revenue fund type.

Recommendation - The Board should establish a policy relating to the receipt and disbursement of various special proceeds available to the County for law enforcement activities.

Response - The Supervisors will review these unmonitored funds with the County Attorney to draft a policy. The County has not received any forfeitures funds for some time, however, we will work on a policy to receive and record all funds to the General Fund.

Conclusion - Response accepted.

I-C-04     Electronic Data Processing Systems - During our review of internal control, the existing control activities in the County's computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the County's computer based systems were noted:

The County does not have written policies for:

- password privacy and confidentiality,
- requiring password changes because software does not require the user to change logins/passwords periodically,
- ensuring that software not licensed to the County is not installed on a personal computer.

Also, the County does not have a written disaster recovery plan.

Recommendation - The County should develop written policies addressing the above items in order to improve the County's control over computer based systems. A written disaster recovery plan should be developed.

Response - The best method of password privacy and confidentiality, and guidelines and policies needs to be researched by the data processing department. Our software company is working on procedures to help us comply with this; new employees are being set up according to HIPPA rules. Cherokee County officials are reworking the personnel policy and these issues will be addressed with the Supervisors approval. The Emergency Management Director, is working on a disaster plan for the County. We plan to hire SIMPCO to finish the outline completed to date

CHEROKEE COUNTY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the General Purpose Financial Statements: (Continued)

REPORTABLE CONDITIONS: (Continued)

I-C-04     Electronic Data Processing Systems - (Continued)

Conclusion - Response accepted.

I-D-04     Original Documentation - We noted several instances where payments made for the Secondary Road and Mental Health departments were not supported by original documentation.

Recommendation - Warrants should only be issued for expenditures which are properly supported by original documentation.

Response - The Auditor's office will only enter payments supported by original invoices. All offices will be notified that any copies of invoices will not be accepted.

Conclusion - Response accepted.

I-E-04     Sheriff's Trust Funds - The Sheriff holds certain funds in trust awaiting disposition by the courts. As of June 30, 2004 there was approximately \$3,800 being held which could not be identified.

Recommendation - The trust funds should be reconciled regularly and any discrepancies investigated immediately.

Response - As of November 1, 2004, the Sheriff's office has changed the procedure on the receipting and holding of trust funds. The funds are sent to the Clerk of Court for recording and then directly sent on to the Plaintiff. The amount of trust funds that are receipted has been minimized, therefore it shall be easier to identify the items that are in the trust account.

Conclusion - Response accepted.

I-F-04     Payment of Compensatory Time - Howard Paul and Mary Benson, who both appear to meet the definition of an exempt employee, were paid \$4,130 and \$3,493, respectively, for compensatory time off when they terminated their employment with the County during the year. The County also paid the applicable social security and Medicare tax on the wages. The personnel policy in effect at that time states in part that ... "If you are an exempt employee, you will not receive overtime compensation either in the form of pay or time off."

Recommendation - It appears these payments were not made in accordance with the County's policy. The County should review the personnel policy to determine it clearly states their position regarding payment of compensatory time and may want to have the County attorney help them resolve this matter.

Response - Both appointed officials were hired by their own Boards (Conservation Board and Board of Health). These Boards have the authority to override the County personnel policy. Past practice was to allow comp time for each. Since new directors have been hired the policy has been corrected. The Conservation Director and the Public Health Nurse Administrator no longer are allowed to bank comp time.

CHEROKEE COUNTY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the General Purpose Financial Statements: (Continued)

REPORTABLE CONDITIONS: (Continued)

I-F-04     Payment of Compensatory Time - (Continued)

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-04     Official Depositories - A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- II-B-04     Certified Budget - Disbursements during the year ended June 30, 2004 did not exceed the amount budgeted in any service area.
- II-C-04     Questionable Expenditures - No expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-D-04     Travel Expense - No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- II-E-04     Business Transactions - Business transactions between the County and County officials or employees are detailed as follows:

| <u>Name, Title, and<br/>Business Connection</u>  | <u>Transaction<br/>Description</u> | <u>Amount</u> |
|--|------------------------------------|---------------|
| Ronald Wetherell, Supervisor,<br>part owner of Wetherell Manufacturing                     | Parts, repairs,<br>and supplies    | \$ 2,982      |
| Chris Staver, spouse of Sheriff<br>Department employee, owner<br>of High Country Auto Body | Parts and repairs                  | \$ 1,922      |
| LeRoy Schoon, Supervisor, owner<br>of Schoon Construction, Inc.                            | Tower rent, rumble panels          | \$10,468      |
| Thomas R. Jenness, Weed<br>Commissioner  | Well closings and backhoe          | \$ 1,500      |
| Larry Walker, Secondary Road<br>employee   | Fill dirt                          | \$ 258        |
| Dan Hingtgen, spouse of Central<br>Point Coordinator, part owner<br>of L&H Engineers       | Engineering                        | \$34,990      |

CHEROKEE COUNTY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Required Statutory Reporting: (Continued)

II-E-04    Business Transactions - (Continued)

In accordance with Chapter 331.342(10) of the Code of Iowa, the transactions with Thomas R. Jenness and Larry Walker do not appear to be conflicts of interest since total transactions were less than \$1,500 during the fiscal year. The other transactions may represent a conflict of interest.

Recommendation - The County should review those transactions closely and may want to consult their attorney to determine that they are in compliance with the Code of Iowa.

Response - All business transactions are monitored at the time of payment. This is a small County and purchases are made locally whenever possible, many times they are the only vendor available in the County for that service. The County Attorney is reviewing these transactions to determine if they are in compliance with the Code of Iowa and what remedial action, if any, is required.

Conclusion - Response accepted.

II-F-04    Bond Coverage - Surety bond coverage of County officials and employees is in accordance with statutory provisions.

II-G-04    Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

II-H-04    Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.

II-I-04    Resource Enhancement and Protection Certification - The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

II-J-04    County Extension Office - The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2004 did not exceed the amount budgeted, however, the Extension Office reflected a deficit balance at June 30, 2004 of approximately \$2,800.

Recommendation - The Extension Council should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

CHEROKEE COUNTY

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Required Statutory Reporting: (Continued)

II-J-04     County Extension Office - (Continued)

Response - The Extension Council is an agency fund with their tax levy set by them and submitted to Cherokee County.

Conclusion - Response accepted.